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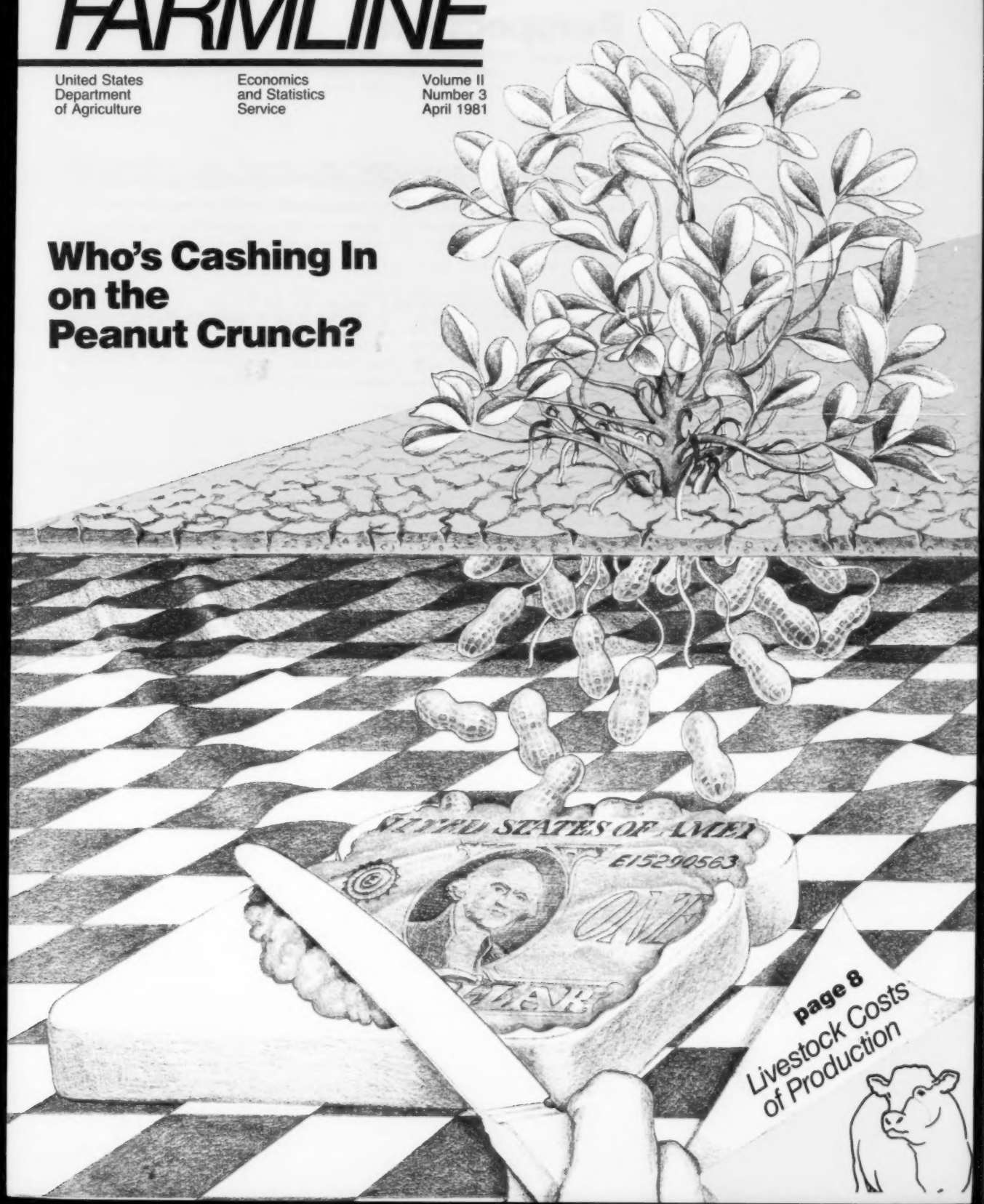
Who's Cashing In on the Peanut Crunch?



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Livestock Costs of Production

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Perspectives

The farm economy is stronger than a year ago, but recovery hasn't been as rapid as expected. Heavy slaughter weights have further boosted large meat and poultry supplies, holding down livestock prices. Also, exports haven't performed as well as anticipated, though there's little doubt they'll set both volume and value records this year.

U.S. export prospects are tempered by large South American soybean and corn crops, slack European demand for soybean products, high interest rates, and a stronger U.S. dollar. Total U.S. exports are now forecast at around $47 billion, down $1-$2 billion from earlier projections but up $6-$7 billion from 1979/80.

How about corn and soybean prices? . . The season-average forecast for U.S. corn is now $3.15-$3.40 per bushel compared with $2.52 last year; for soybeans, $7.40-$7.90 per bushel versus $6.28 last year (based on Oct.-Sept. marketing year for corn; Sept.-Aug. year for soybeans).

What about U.S.-Soviet trade? . . Soviet buying for the year has about reached the embargo limit. And the 5-year grain trade agreement expires in September, spelling an end to U.S. grain sales to the USSR unless the agreement is renewed or the embargo lifted. But even if differences aren't settled, the Russians will have to draw on limited world supplies, so 1981 U.S. crops will be sorely needed by markets that lose their regular suppliers to the USSR.

Embargo news . . . In recent statements, the Soviets seem to have signaled their interest in resuming normal trade. USDA Secretary John Block notes: "We hope their enthusiasm for trade might cause them to demonstrate some good deed to enable this Administration to lift the embargo."

At the Kremlin . . . Soviet planners set relatively modest farm goals for 1981, but chances are they'll still have problems. Their grain production target this year is 236 million tons--a million below their record 1978 crop but 47 mil. above 1980 production. And even with a good crop, they'll likely be shopping for near-record imports in an effort to rebuild stocks and maintain livestock herds.

•

Nutrient-short soils are a big restraint on Soviet yields, but they need high quality phosphates to produce more fertilizer. That's why they decided to buy a million tons of superphosphates a year from us until the U.S. blocked shipments--a move that denies the USSR around 7 million tons of grain output annually according to one estimate.

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The short peanut harvest sent prices soaring, but few farmers, shellers, or manufacturers cashed in. Even high prices couldn't squeeze more peanuts from drought-withered fields and depleted domestic stocks.

Farmers Sink or Swim in Inflation's Tide by *Daniel R. Williamson* 10

Inflation adds to the overall costs of farming, but it also increases the wealth of established farmers who own farmland and gives them the edge in bidding for more.

"Customers" Rate Agency Performance by *Benjamin R. Blankenship* 14

An earful of concerns, suggestions, and even some compliments greeted ESS officials who asked farm, agribusiness, and other user groups to critique the agency's role in meeting their information needs.

Better Measures of Farm Finances by *Eric Van Chantfort* 16

New measures of farm operator income and the economic status of U.S. farms are more than just numbers. They're expected to provide better information to target farm programs and guide businesses serving farmers.

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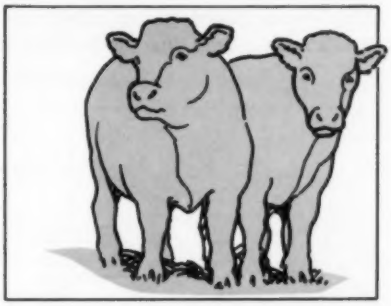

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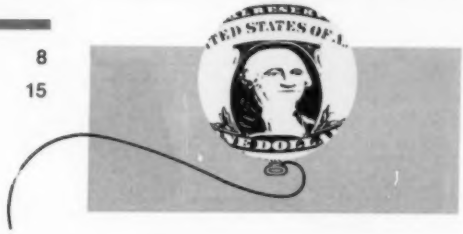


Who's Cashing In on the Peanut Crunch?

The U.S. peanut industry is feeling the crunch from last summer's drought.

In Georgia, Florida, and Alabama, the nation's largest producing area, the 1980 peanut harvest was only about half its expected size. Total U.S. production fell 42 percent from 1979, even though planted acreage was virtually unchanged. Edible stocks declined by about half.

Besides scorched fields, the drought also brought other problems for peanut farmers.

Twelve percent of the harvested crop was attacked by a fungus—aspergillis flavus mold—common to peanuts in dry, hot weather. Normally, less than 1 percent of the U.S. crop is affected. In many cases, the damaged stocks could be salvaged for crushing purposes, but the fungus added further strain to the already limited edible supply.

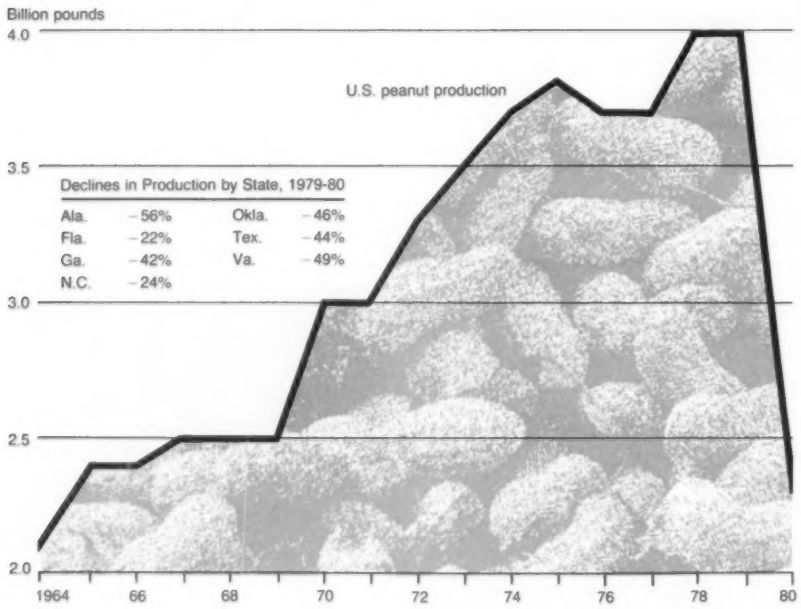
Farm prices doubled between September and January, but relatively few growers benefited.

The resulting shortage created gaps on food store shelves and considerable pressure on prices at all levels.

Farm prices to growers averaged 20.7 cents per pound last September, but jumped to 27.1 cents by November and to 37.1 cents per pound in December. By January, the remaining peanut supplies went for around 42 cents per pound, almost double the $455-a-ton (22.8 cents a pound) guaranteed under the government's price support program.

Some growers were reportedly paid more than 55 cents a pound in December for spot loads ready for prompt shipment in Texas and Oklahoma.

1980's Peanut Crop Was the Smallest Since 1964



Few Farmers Benefit

Such dramatic increases in prices benefited relatively few farmers, according to USDA economist Robert H. Miller. Even among the farmers who didn't suffer serious crop losses, most were locked into contracts made well before the drought. In Georgia, for instance, about 90 percent of the estimated 12,000 peanut farmers had sold at least part of their crops under contract at pre-shortage prices.

Throughout the industry—from peanut shellers to domestic or export customers—forward contracts are the usual way of doing business.

Around spring planting time, shellers use industry estimates to determine their needs. They may then contract to purchase peanuts from farmers at harvesttime and to sell shelled nuts to manufacturers who produce candy, peanut butter, and other products.

Last spring, peanut industry estimates called for a normal yield of about 2,600 pounds per acre. However, nature didn't cooperate. The U.S. average yield fell to 1,633 pounds per acre, and most farmers were left with much smaller crops than anyone had expected early in the season.

As a result of the shortfall, many shellers could not fulfill their obligations to manufacturers. This forced some shellers out of business. Others had to advise their normal buyers that they could deliver only a portion of the peanuts called for in their contracts—sometimes as little as 25 percent. Some tried to meet their contracts by shelling

out high spot market prices for any stocks available.

Imports: Too Little, Too Late?

But even soaring prices couldn't produce the needed peanuts from depleted domestic stocks, and manufacturers started looking abroad. Last December, the government temporarily raised import quotas for peanuts far above the 1.7 million pounds allowed each year since 1953.

The December action permits an additional 200 million pounds of shelled edible peanuts to be imported into the U.S. However, the imports must arrive before June 30, so that they won't interfere with the 1981 domestic crop and the government's price support program.

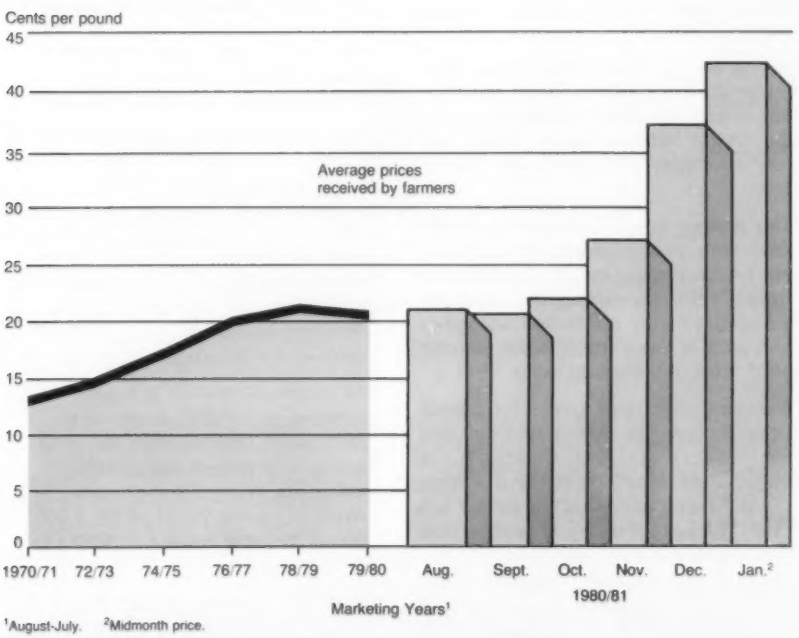
For 1981, USDA has raised the acreage allotment 8 percent. With good weather, this season's crop may relieve the shortage. Early this year, growers indicated their intentions to plant about 67,000 more acres of peanuts than in 1980, a 4-percent increase.

Meanwhile, finding the extra 200 million pounds of edible grade peanuts permitted by the import quota adjustment could be a challenge.

The U.S. normally supplies about half of the peanuts going into world trade. This crop year, however, exports may drop to about 420 million pounds, down from 800 million in 1979/80.

Larger harvests in other nations—particularly in China and India, the world's largest producers—may help relieve the shortage in U.S. supplies. Given the high peanut prices on the open market, both countries are expected to export more than usual.

Withered Peanut Harvest Pushes Up Prices



[1]August-July. [2]Midmonth price.

Still, this relief may be too late and too costly to satisfy the American appetite. Americans consume about 2 billion pounds of peanuts a year—9.3 pounds per person—in a variety of edible forms. And peanuts are also used in a variety of nonfood products: cold cream, shaving cream, ink, explosives, and even kitty litter.

Spreading It Around

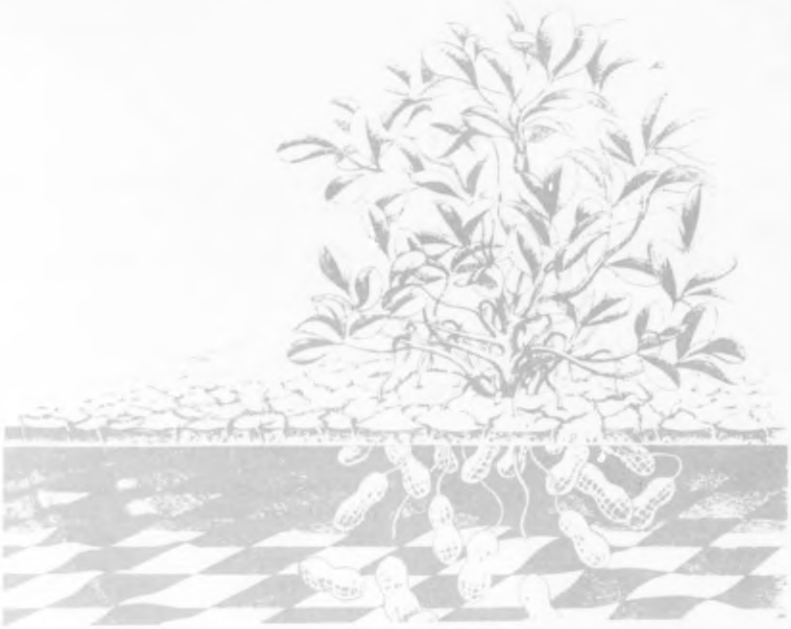
So, last year's total crop of 2.3 billion pounds may not spread far enough, especially for one favorite sandwich ingredient—peanut butter. Manufacturers of this American staple usually account for about 50 percent of domestic edible use. This year, peanut butter makers were probably lucky to get half of their normal supply.

Scrambling for the imports that have become available, manufacturers face much higher prices. In some cases, prices for shelled peanuts were up to five times the normal rate of last season. Retail prices have gone up too, and some supermarkets are rationing peanut butter.

Things are not much better for the other major peanut users—candy manufacturers and nut salters and roasters. In the candy industry alone, about 190 million pounds of peanuts are used a year.

The smaller companies that generally keep lower peanut inventories are hardest hit. One small candy manufacturer based in Chicago temporarily suspended peanut candy production altogether and probably won't begin again until the 1981 crop becomes available.

Just how high retail prices for peanut products can go will vary from one manufacturer to another. A spokeswoman for the National Peanut Council says a company's prices are really dependent on three factors: how many peanuts it acquired early in the season, what its 1979 carryover stocks were, and how much it is willing to lose to keep its products on supermarket shelves.



Planning for Excess

This year's peanut shortfall, due to the most severe drought in decades, is not exactly what the policymakers had in mind when they designed the government's peanut program. The program's purpose is to deal with excess supplies, which for many years has been the usual situation.

Peanut production in the U.S. is regulated through acreage allotments and poundage quotas, and the price is supported through price support loans. Peanuts must be produced on allotment acreage, and production in excess of the quota is exported or crushed into oil. Peanuts grown within the poundage quota may be marketed for domestic edible use.

The minimum national acreage allotment—1.6 million acres—was permanently fixed in 1941. But over the years, improved agricultural techniques prompted enormous growth in peanut yields—from 1,000 pounds per acre in the mid-1950's to 2,465 pounds by 1976.

So, in 1977, Congress determined the amount of peanuts that could be produced on a given acre and supported at the government's "quota price." Production in excess of this amount is considered an additional crop and is supported at the "additional price." In 1980, the support prices for quota and additional peanuts were fixed at $455 and $300 per short ton, respectively.

Excess production has normally been acquired through the Commodity Credit Corporation (CCC), which has disposed of the peanuts at a financial loss. CCC net realized losses were $18 million for the 1978 crop and an estimated $50 million for 1979 peanuts.

The import quota on peanuts is similarly designed to deal with an excess supply situation, by preventing imports from interfering with the government's support program. Since 1953, peanut imports have been limited to 1.7 million pounds for each 12-month period beginning August 1 (which corresponds to the beginning of the marketing year for peanuts).

Agricultural Roundup

Farm Numbers Still on the Wane

Continuing the pattern of decline over the last 4½ decades, the number of U.S. farms dropped to 2.43 million in 1980 from 2.52 million in 1975, according to USDA's Crop Reporting Board.

That represents 4 percent fewer farms than in 1975, with the decline centered in the midwest and south. Farm numbers in the New England states and on the west coast actually increased slightly. Nationally, the rate of decline slowed in the last decade.

Total farmland acreage also continued to fall. Since 1975 it has decreased from 1.06 billion to 1.04 billion acres—a 2-percent drop. The average farm size, though, increased from 420 acres in 1975 to 429 acres in 1980.

A year ago USDA had anticipated that farms would number only 2.3 million by the end of 1980. However, the *1978 Census of Agriculture*, published in 1980, indicated 2.48 million farms in 1978—2.2 percent more than USDA's figure of 2.44 million for that year. USDA reviewed its survey data and revised the 1979 and 1980 numbers to match the trend set by Census.

The numbers didn't originally match up because the two federal agencies use different data collection methods. About June 1 of each year, USDA enumerators personally interview all operators of farms within randomly selected land segments. The Census Bureau conducts a mail survey every 4 or 5 years to reach all known farms, supplementing this with a count of farms on random land segments.

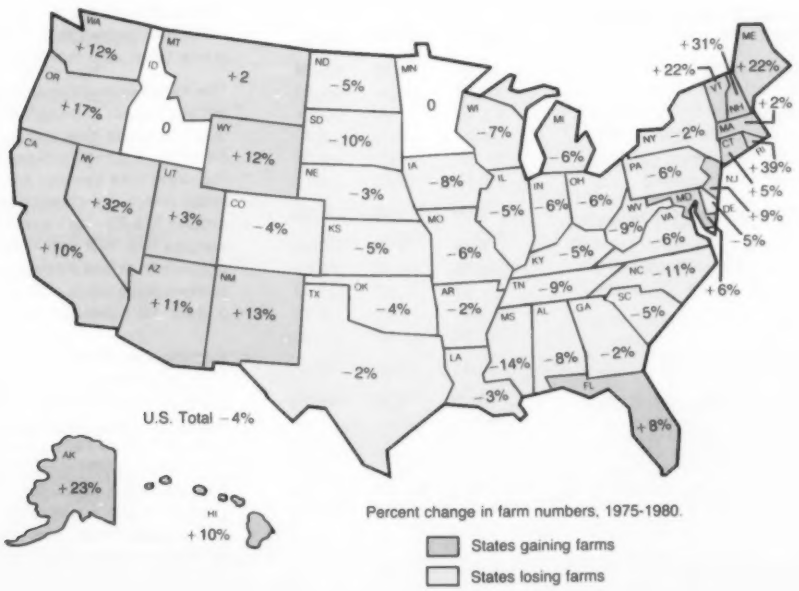
This leads to different counts partly because USDA includes only farms operating about June 1, while Census tallies those in operation any time during the year.

There was little difference between the farm numbers obtained by Census and USDA in the north central region, which has 40 percent of U.S. farms. The greatest differences occurred in states characterized by small or specialty farms.

Census is more likely to count borderline cases as farms. One reason is that the lists of farms used in the census are likely to include more names than USDA is able to identify in its sample of land segments—especially in densely populated areas.

At the same time, Census' chances of double-counting a farm by surveying both the owner and the tenant or both members of a partnership are greater.

More Farms in West, Fewer in Most Eastern and Central States



Top Export States

Ten states accounted for nearly 60 percent of record U.S. export earnings last year, with Illinois and Iowa again heading the list.

New to the list were North Dakota and Missouri, which replaced North Carolina and Ohio in the ninth and tenth spots.

Although some rankings changed, all of the top exporting states shared in the 27-percent gain in total U.S. export value, which climbed over the $40-billion mark. Increases ranged from 57 percent for California to 13 percent for Minnesota and Indiana.

Last year, exports accounted for a third of U.S. feed grain production, about 53 percent of the soybean harvest, 65 percent of wheat output, and 63 percent of the cotton crop.

Top Ten States All Score Export Gains[1]

	Fiscal 1980 export value	Change from 1979
	$bil.	*percent*
Illinois	3.64	+25%
Iowa	3.27	+17%
California	3.17	+57%
Texas	3.09	+51%
Kansas	2.21	+41%
Minnesota	2.00	+13%
Nebraska	1.93	+30%
Indiana	1.71	+13%
North Dakota	1.46	+34%
Missouri	1.44	+26%
Ten-state total	23.92	+30%
U.S. total	40.48	+27%

[1] Export values are based on each state's share of total U.S. output or sales—not on actual state origins of exported products.

Livestock Costs of Production

Each year, USDA's Economics and Statistics Service prepares cost-of-production estimates on various agricultural commodities.

The following summaries cover the estimates recently provided to Congress on livestock, including final 1979 figures, preliminary 1980 estimates, and 1981 projections reflecting conditions at the beginning of this year.

Data for these annual reports are based on periodic producer surveys, with the results updated using a computerized, cost-estimating budget procedure.

Hog Costs To Offset Price Gains

Net income prospects for hog producers aren't much different from last year. Sharply increased costs are expected to offset any gains in market prices.

Hog slaughter should be down slightly from last year's 96-million-head record, improving the supply-demand balance. As a result, market prices are expected to average in the low $50's per cwt.—25 percent higher than in 1980.

However, direct costs for farrow-to-finish enterprises—including feed and other cash expenses—will also rise about 25 percent. This will boost direct costs to a national average of $50.85 per cwt. sold, up from $40.89 a year ago.

Similar increases are expected for feeder pig finishing enterprises: Direct cash costs for finishing feeder pigs are expected to run $63.06 per cwt., up about 28 percent from last year's $49.45.

Paying the Feed Bill

For all hog producers, sharply higher feed costs may shut the door on what otherwise could have been a profitable year. Feed costs may rise 30 percent, though the situation is still uncertain. The final outcome will depend on crop developments here and abroad.

Double-digit increases are expected for most other hog production costs, too. Fuels and energy and farm and motor supplies will probably cost 20 percent more. Most other inputs may rise 10 to 12 percent.

After meeting direct costs, the average farrow-to-finish hog enterprise will just about break even, compared with a loss of 59 cents last year. But this return will not cover the estimated value of non-cash costs, primarily for ownership and family labor and management, and it will provide nothing for capital costs.

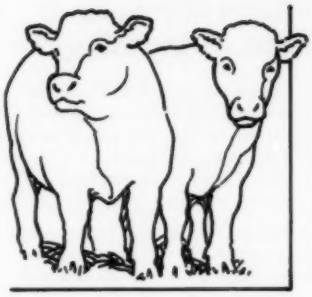
This year, these indirect costs are projected to rise about 8 percent. In all, farrow-to-finish hog producers can expect to take a loss of $9.72 per cwt. sold on total costs (excluding land)—direct costs, returns to family labor, and other ownership expenses. That figure compares with the average $9.30 loss suffered in 1980.

Back-to-back years of cash losses for most producers will increase pressures for more rapid adjustment toward larger and more efficient operations.

Slaughter Hogs: Farrow-to-Finish Operators Face More of the Same in 1981

	1979	1980[1]	1981[2]
	dollars per cwt. of sales[3]		
Gross returns from barrow and gilt and all sow sales:	42.74	40.30	51.15
Total direct costs:	37.39	40.89	50.85
Feed	26.71	28.31	36.76
Hired labor	1.70	1.84	2.04
Other production costs	5.84	6.99	8.10
Interest on operating capital	.97	1.27	1.24
General farm overhead	2.17	2.48	2.71
Returns over direct costs:	**5.35**	**-.59**	**.30**
Other costs:	8.05	8.71	10.02
Operator and family labor	3.79	4.09	4.54
Ownership costs[4]	.61	.63	.72
Management	3.61	3.94	4.70
Land tax	.04	.05	.06
Total nonland costs:	45.44	49.60	60.87
Net return above nonland costs:	**-2.70**	**-9.30**	**-9.72**

[1]Preliminary. [2]Projected as of Jan. 1, 1981. [3]Includes the returns from sale of cull breeding stocks as well as slaughter animals. [4]Shortrun costs do not include allowances for fixed costs of replacement returns and interest on invested capital which totaled $11.08 per cwt. of sales in 1981, $10.70 in 1980, and $9.73 in 1979. Real estate taxes are the only charge made for the use of the land.



Cattle Feeders May Do Slightly Better

Fed cattle producers can expect to do slightly better this year than last, when all of 1981 is considered. Prices were much lower than expected this past winter, but substantial price strength is likely in the last half of the year.

The average large commercial feedlot should net a small margin over total costs, though farmer feeders will generally not do as well. They are expected to cover their direct costs but not all ownership expenses and returns to family labor and management.

The national average cost of feeding a steer to slaughter weight is projected to rise about 8 percent this year to $78.05 per cwt. At the same time average annual fed cattle prices are forecast at around $78.50—an increase of 16 percent over last year—though depressed prices since these projections were made might indicate a lower 1981 average return.

Coming Out Ahead

If the estimates do hold, however, the typical cattle feeder will be ahead 45 cents for each 100 pounds sold in 1981. This contrasts with 1980's discouraging balance sheet, which left producers with a loss of $4.20 per 100 pounds. Total costs averaged $72.05 and farm prices were $67.85.

Although this year's returns to producers will be on the positive side, they'll still be less than a fourth of those received in 1979.

Of course, all these estimates are based on averages. Costs and returns differ significantly for large commercial feedlots, predominant in the Great Plains and western states, and smaller farmer-feedlot operations found mainly in the farmbelt.

Although feedlots with the capacity to produce more than 1,000 fed cattle annually account for less than 2 percent of all feedlots, they provided 72 percent of all fed cattle marketed in 1980.

The vast majority of feedlots have a production capacity of less than 1,000 head and are typically part of a mixed enterprise farm often specializing in small grain production. They account for only 28 percent of fed cattle produced and usually have higher production costs per cwt. than larger commercial feedlots.

Higher Returns Expected for Cow-Calf Producers

The average cost of producing feeder calves and yearlings is projected to increase to about $99.19 per cwt. this year, up from $85.27 last year. However, gross returns will also be up—perhaps 17 percent to $108.85.

As a result, cow-calf producers may do slightly better than last year. Net returns are projected to increase to $9.66 per cwt. That's a 22-percent increase from 1980 but less than a third of 1979's $31.05 per cwt.

However, after paying direct costs, producers can expect only an 11-percent increase in returns to about $40.53 this year, up from $36.41 in 1980. Of course, this is an average figure for all types of cow-calf operations, and there is a wide variation depending on size.

In fact, the total shortrun cost of producing feeder cattle in 1979 averaged almost twice as much in cow-calf operations with fewer than 100 brood cows as in operations with more than 1,000 cows.

Cash costs will be higher this year due to the drought's effect on feed costs, which account for around 40 percent of total production costs. In cow-calf operations, hay, grain, and oilseed meals are fed primarily during the winter when pasture is scarce.

Besides its effect on feed prices, the 1980 drought also hurt forage production. Poor pasture and range conditions last fall required increased supplemental feeding by cow-calf and dairy operators. This strained the already short hay supply, causing roughage prices to increase substantially.

Cattle Feeders Can Expect Somewhat Better Returns This Year

	1979	1980[1]	1981[2]
	dollars per cwt. of sales		
Returns from fed beef:	67.85	67.85	78.50
Total direct costs:	64.16	70.26	76.02
Feeder cattle (56.6 lb.)	42.40	45.60	46.14
Feed	16.03	17.72	22.64
Other production items	4.00	4.78	5.50
Interest on operating capital	1.61	2.12	1.70
Labor	.55	.58	.65
Manure credit	-.43	-.54	-.61
Returns over direct costs:	**3.69**	**-2.41**	**2.48**
Other costs:	1.58	1.79	2.03
Operator and family labor	.69	.74	.82
Ownership costs[3]	.13	.14	.14
Management	.73	.87	1.03
Land tax	.03	.04	.04
Total nonland costs:	65.74	72.05	78.05
Net return above nonland costs:	**2.11**	**-4.20**	**.45**

[1]Preliminary. [2]Projected as of Jan. 1, 1981. [3]Interest and taxes, based on original investment values, plus insurance and replacement reserves, based on current investment values.

Some Improvement Predicted for Cow-Calf Returns

	1979	1980[1]	1981[2]
	dollars per cwt. of sales		
Gross returns from feeder calf and cull cow sales:	108.67	93.16	108.85
Total direct costs:	51.96	56.75	68.32
Feed	30.96	32.15	40.72
Hired labor	3.25	3.48	3.87
Other production items	12.54	14.86	17.28
Interest on operating capital	1.98	2.61	2.46
General farm overhead	3.22	3.65	3.99
Returns over direct costs:	**56.71**	**36.41**	**40.53**
Other costs:	25.67	28.52	30.87
Ownership costs[3]	1.14	1.31	1.33
Operator and family labor and management[4]	19.83	21.81	23.61
Land taxes	4.70	5.40	5.93
Total nonland costs:	77.62	85.27	99.19
Net return above nonland costs:[5]	**31.05**	**7.89**	**9.66**

[1]Preliminary. [2]Projected as of Jan. 1, 1981. [3]On machinery, equipment, buildings, and facilities. [4]Non-cash costs. [5]Covering shortrun costs for operators whose primary business is raising cows and calves; not an estimate for operators just entering the business with large outstanding debt on machinery and equipment, buildings and facilities, livestock, and feed.

Farmers Sink or Swim in Inflation's Tide

This is the second article in a three-part series examining inflation and how it relates to the overall economy, to agriculture specifically, and to government decisions in coming months.

How does inflation affect American farmers?

The answer depends greatly on a farm's products, size, location, and other individual characteristics that determine whether a farmer rides safely above the crest of inflation, or falls under.

A study by USDA economists Paul Prentice and Lyle Schertz shows that inflation:

- Drives up prices received by farmers, but it also pushes up the costs of production inputs.
- Encourages farmers to buy equipment and land today, before prices go even higher. This, in turn, increases pressures for higher commodity price supports.
- Increases the wealth of those who own farmland.
- Gives wealthier and higher income farmers a competitive advantage in bidding for land.

Effect on Net Farm Income

There's little doubt that inflation pushes up prices of both farm products and inputs, Schertz says. "However, the evidence is much less clear as to the effect of inflation on net farm income."

An individual farmer may be able to document that inflation has hurt income, but some have clearly benefited—especially those who earlier borrowed money to buy land that has, in turn, increased dramatically in value. Thus, it's hard to derive tidy conclusions for all farmers.

Prentice explains that some economists have concluded that input prices have outgained product prices. If this were true, it would mean that real net farm income for farmers has lost ground due to inflation.

But an analysis by Prentice and Schertz doesn't support that conclusion. Furthermore, the economists stress, it's important to recognize that inflation isn't solely responsible for rising input costs or product prices.

To accurately determine inflation's impact on net farm income, economists must somehow separate the inflation-induced product price and input cost increases from those due to other factors.

"Sorting out the specific effects of inflation is difficult," Schertz says. "Inflation is only one of many reasons for changes in prices received and prices paid."

He explains that price changes occur with shifts in supply and demand—changes that aren't always triggered by inflation. A mix of such factors as technology, natural resources, population, and income—none of which relates directly to inflation—can push up prices the same as an inflationary increase in the money supply.

Buying Before Prices Rise

Next on the list of inflation's consequences for farmers is its impact on purchases of major capital inputs such as equipment and buildings—a vicious cycle which is easier to observe than some other effects. Here's how the "buy now before prices go even higher" cycle progresses:

1. Capital input prices, for items such as tractors, rise.
2. Then, farmers buy new equipment sooner than necessary, fearing prices may go even higher.
3. Since the collateral value of such goods may rise, lenders may provide credit even when equipment won't be used fully.
4. This demand, fueled by the anticipation of higher prices, feeds still higher prices.

But most importantly, such premature investments add to the overall costs of U.S. farming, cutting aggregate profits for the industry. This, then, leads to pressures for higher price supports and other government actions designed to bolster farm prices or otherwise subsidize farm incomes. Such government action can further feed inflation, helping to perpetuate the cycle.

A related effect is to spur individual farmers to buy larger equipment than they now need in anticipation of future needs, and then to buy more land to allow efficient use of the equipment—if suitable land is available.

Farmland Owners Fare Better

The third general area is that those who own farmland become wealthier during inflationary times.

To understand the relationship between inflation and the economic strength of farmland owners, the economists stress these points.

- The value of farm assets increased much faster than the rate of inflation over the past two decades. For example, total farm asset values increased nearly $500 billion from 1970 through 1978. That's almost double the asset growth needed to keep up with the rate of inflation.
- Net farm earnings also increased.
- Higher farm earnings and inflation boost the value of farm assets.
- Average returns to farming—earnings plus capital gains—have exceeded average returns to common stock. From 1970-78, annual returns to farming averaged 15 percent, compared with less than 5 percent for common stock. This encourages investment in farmland.

As a result, many investors—both farmers and nonfarm people—are in the market for good farmland, bidding up its value.

Although farmers may point out that this wealth is strictly on paper—they can't fully realize it unless they sell the land—it does offer real advantages in securing credit to cover operating expenses or to obtain additional land for expansion.

Plight of New Farmers

This leads to the fourth area: Inflation strengthens the position of wealthy, established farmers in buying land, but it can also worsen the plight of those interested or just getting started in farming. The prospective current earnings to land of, say, 15 percent aren't enough to pay the higher interest rates caused by inflation.

This means that unless new farmers have earnings from other farm assets, off-farm income, savings, or an inheritance, they can't qualify for a loan. Those who already own substantial assets are often the only ones who can afford land in inflationary times.

Prospective returns to land from farming aren't enough to pay the higher interest rates caused by inflation.

The situation is different when the general price level in the economy is stable. In those periods, interest rates are significantly lower and more likely to be covered by potential current earnings. Thus, those without other assets can qualify for loans on the basis of the prospective earnings of the land being purchased.

The edge for established farmers and others with an outside cash flow—such as outside investors—is reinforced by commodity programs and tax policies.

With minimal risk of commodity prices falling below support levels, potential buyers and credit institutions are bolder with investments, especially since interest payments on loans used to buy farm capital assets are deductible from income taxes, and only 40 percent of capital gains are taxed when realized.

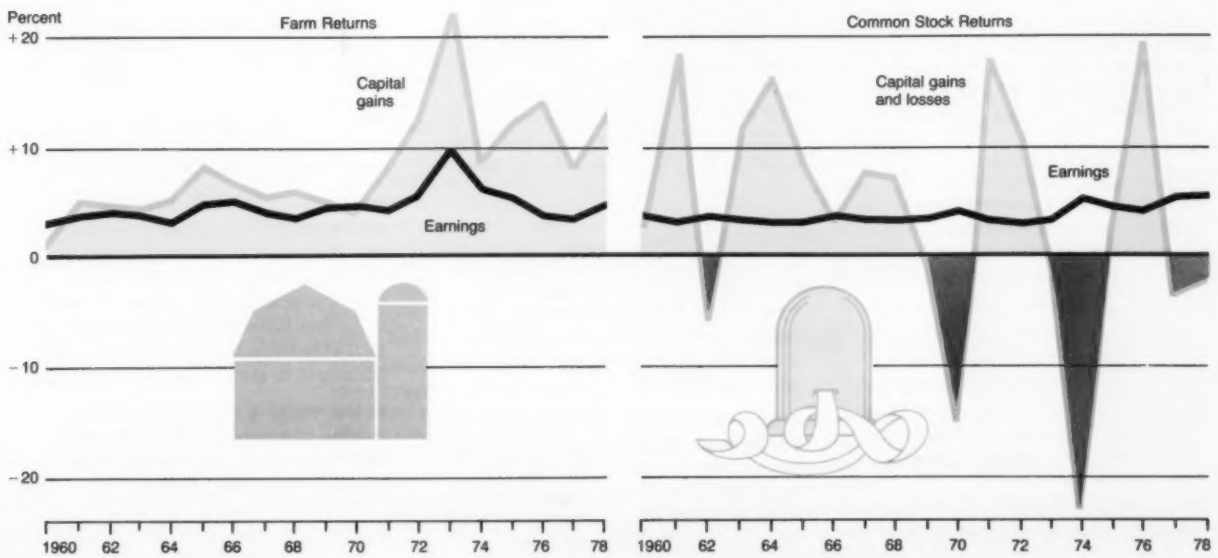
All of this feeds the continuing trend toward fewer but larger farms that is reshaping the face of American agriculture.

The impact of inflation on agriculture presents a set of hard problems for government policymakers who must decide who—if anyone—must "bite the bullet," giving up current privileges and accepting some economic hardship to fight inflation.

Since the federal role in agriculture is far-reaching, farmers could be mightily affected by any inflation remedy. The next issue of *FARMLINE* will carry the final article in this series—a look at government's options in dealing with inflation.

(See related story on next page.)

Farms Show Better Returns than Common Stock



A Tale of Two Farmers

To see how inflation's effects on agriculture vary among farm operations, let's match two fictitious farmers.

In 1960, Charles Smith bought a 500-acre Iowa corn farm valued at $250 per acre, including all buildings and equipment. His parents gave him $25,000 for a down payment, and he borrowed the remaining $100,000 from the local bank.

He's paying $7,250 of principal and interest per year on a 30-year loan at 6-percent interest. The farm is now worth about $850,000. Smith still owes $53,500 on his loan.

A half-mile away lives Johnny Jones. He'd like to have his own farm, but his savings are relatively modest, and no inheritance or family help is in prospect.

A neighbor has recently put 80 acres up for sale at $1,700 per acre, or $136,000. Jones wants to buy it, so he and his wife visit the Farm Credit Bank.

In examining his financial situation, Jones and a bank officer agree to a $36,000 down payment. So, the Joneses will need a 30-year, $100,000 loan for the rest of the purchase price.

They then run head-on into inflation, which has pushed interest rates to 11 percent or more on land loans. Their principal and interest payments next year for a land loan of $100,000 would be $11,500 or more.

They will also need some machinery. The Production Credit Association will provide a $15,000 loan to acquire the equipment, but Jones would have to pay $3,800 next year on the 6-year loan made at 14-percent interest.

Out-of-Pocket Costs

Based on records of other local farms, the 80 acres of corn and soybeans would require $130 per acre in annual out-of-pocket production expenses—besides the cost of machinery and a return to management and labor—even if Jones operates as efficiently as the big farms in the area.

With "average" weather, yields, and prices equal to those over the past 2 years, the farm's gross income would be $20,000—$5,700 below expenses.

Jones can also continue his job in town. He earns $15,000 and figures he can afford to use $2,000 of this to pay farm expenses, but he needs the rest for living expenses. Thus, if Jones buys the farm, his cash flow next year would be:

Loan payments, land:	$11,500
Loan payments, equipment:	$3,800
Production costs:	$10,400
Total outlay:	$25,700
Projected sales:	$20,000
Nonfarm income available for farm expenses:	$2,000
Projected shortfall:	($3,700)

The bank official must refuse to make the loan. The Joneses can't hope to trim expenses by the necessary $3,700. In addition, by the time the loan is made, interest rates may be even higher than 11 percent.

Bank Won't Wait

Jones points out that local land prices have more than quadrupled in the past 10 years, so the 80 acres would, at that rate, be worth nearly $600,000 in 10 years. But the bank won't wait 10 years for payment.

Meanwhile, Smith is also interested in the 80 acres. Although he has enough money in the bank to buy the land, he'd rather not touch his nestegg if reasonable financing can be worked out with the Farm Credit Bank.

Bank officials find Smith's cash flow is very good if the 80 acres are combined with his present 500-acre farm. The bank suggests refinancing the outstanding $53,500 loan on the original 500 acres.

The prospective cash flow of the present 500 acres, combined with the 80 acres, could support a loan of over $300,000—and still leave a safety margin—if Smith wanted that much. That way, after paying $136,000 for the "new 80," he'd have $164,000 for other investments.

Smith then buys the 80 acres, thanks in large part to inflation. It increased Smith's land values for use as collateral, and nudged interest rates so high that Jones couldn't afford to buy the land.

Without Inflation

Without inflation, interest rates would have been 5 or 6 percent, giving Jones this prospective cash flow:

Loan payment, land:	$6,500
Loan payment, equipment:	$2,000
Production costs:	$10,400
Total outlay:	$18,900
Projected sales:	$20,000

With projected sales exceeding outlays by $1,100, the bank may well have made the loan to the Joneses.

Thus, inflation encourages the aggressiveness of established farmers, such as the fictitious Smith. In fact, by astutely borrowing money over the years as his original investment increased in value, Smith could probably have built his original 500-acre farm to about 2,000 acres today.

In the world of high inflation, the Smiths can accumulate, while the Joneses may never be able to go beyond their pipe dreams.

Reports in the News

To order reports: Unless another address is listed, write to FARMLINE Reports, Room 505-GHI Bldg., USDA, Washington, D.C. 20250. Please ask for publications by title and report number (in parentheses). Single copies are free, but supplies are limited.

Publications available from other sources and costs, if any, are indicated.

Problems with Potato Futures

Futures trading in Maine-grown potatoes became less effective in determining potato prices and permitting hedging in the 1970's. The reason: Potato production changed and the terms of futures contracts failed to adjust.

According to three USDA analysts, the remedy may be the optional use of cash, based on a formula, to settle potato futures contracts outstanding at the close of trading on the New York Mercantile Exchange.

Optional cash settlements would sidestep delivery difficulties and ensure that cash and futures prices converge as the contract matures.

The lack of price convergence stems from the increasing costs of making acceptable delivery. This causes hedging to be less effective than it should be in stabilizing returns for potato farmers and other hedgers.

Maine's declining potato acreage and increased plantings of early maturing potatoes, which do not store well, are the root of the difficulties.

To make more potatoes available for delivery on futures contracts, the authors also recommend that the contract be broadened to permit delivery of all U.S. round white potatoes if they meet the same specifications as the Maine contract. Connecticut and New York potatoes have recently been included in the contract.

In recent years, futures trading in the May contract has been heavier than for other contract months, leading to charges that trading in May futures has caused price volatility in recent years. However, the study indicates that the volatility of prices for the November, March, and April contracts has increased more, and that trading in May contracts shouldn't be curtailed on this count.

Unless defects in the potato market are removed, especially if short-term hedging outcomes are not improved, the potato futures market could die from lack of use, the authors warn.

***Performance of Futures Markets: The Case of Potatoes** (TB-1636), by Allen B. Paul, Kandice H. Kahl, and William G. Tomek.*

Produce Shippers Prefer Trucking

Trucks have been capturing business from railroads in delivering fresh fruits and vegetables to the 41 major markets, and the trend is likely to continue well into the 1980's.

The switch in transporting sources is related to improvements in highways, refrigeration, and trucks. In a recent study, shippers reported that truckers provided shorter delivery times, more dependable services, and less losses and damages.

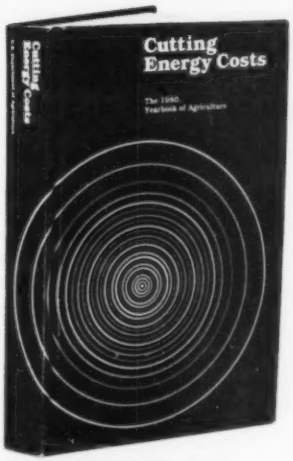
The shift from railroads to trucks has left truckers with their share of problems. For example, truckers must maintain considerable capacity in order to provide the large number of trucks demanded during peak months. Thus, they have to charge higher rates during the heavy shipment season not only to attract trucks but also to offset lower rates during light shipping seasons.

The shift to trucking changed regional shipping patterns considerably between 1963 and 1975. The volume of fresh produce shipped from the east declined, while the volume shipped from southern and western states increased.

The Pacific region registered the largest increase and the south Atlantic followed. Decreases were registered in three regions: New England, mid-Atlantic, and east north central.

These regional changes increased mileage costs because truckers had to travel longer distances to terminals.

***Trends in Fresh Fruit and Vegetable Transportation, 1963-75** (ESS-1), by Patrick P. Boles.*



Cutting Energy Costs

The 1980 yearbook of agriculture tackles one of the biggest problems facing the nation and the world—energy costs. The book has helpful information on bringing down energy costs for farmers, foresters, homemakers, communities, and the food industry.

Topics covered include how to grow crops with less energy, the do's and don'ts of home insulation, how communities can cut energy costs, and turning farm wastes into usable energy, such as gasohol.

The proposed title for 1981's yearbook is "Will There Be Enough Food?", according to USDA's Wayne Rasmussen, 1981's yearbook chairman.

***Cutting Energy Costs.** Order from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Make checks payable to Superintendent of Documents. Cost is $9.50.*

Packed with Farm Statistics

USDA's latest statistical handbook is packed with more than 600 pages of data tables on agricultural production, prices, supplies, consumption, costs, and returns.

You'll also find data on USDA stabilization and price support programs, soil conservation practices, consumer food programs, and electrification and telephone loans. Most tables provide both up-to-date and historical statistics.

Published annually since 1936, the handbook provides a convenient, one-stop reference source for the most widely used agricultural statistics that appear in other USDA publications.

***Agricultural Statistics,** 1980. Order from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Makes checks payable to Superintendent of Documents. Cost is $7.*

"Customers" Rate Agency Performance

Gilbert Fricke of the Illinois Department of Agriculture welcomes data users gathered in Chicago to discuss ESS' role in meeting their information needs. Seated (left to right) are ESS officials Donald Barrowman, James Olson, William Kibler, and Kenneth Farrell.

Day-long blizzards of constructive criticism greeted a small band of government officials this winter at three listen-and-learn sessions in Chicago, Memphis, and Denver.

The sessions, called data users' conferences, are hosted each year by USDA's Economics and Statistics Service (ESS) for farm, agribusiness, and other groups using—and contributing to—the agency's agricultural data and economic information. Participants gather to discuss ESS' role in meeting users' information needs.

Noting recommendations for future action were ESS Administrator Kenneth Farrell, Deputy for Statistics William Kibler, Deputy for Economics J. B. Penn, and other agency policymakers.

Concerns, suggestions, and even some compliments were voiced on many topics, including:

• *Timeliness.* Users urged ESS to get farm data and explanations out faster, as soon as possible after survey information is collected and analyzed.

• *Cooperation.* Users recommended continued USDA efforts to improve understanding of the need for crop, livestock, and situation report programs. Such understanding, they said, will assure the voluntary cooperation of producers, as well as industry and academic groups, with ESS information-collection activities.

• *Overload.* Users complained of too many survey forms to fill out. The problem of a growing "respondent burden" results partly because individual farmers, especially larger operators, stand a greater chance of being surveyed for needed information as their numbers dwindle.

ESS has tried to help by cutting the time it takes to fill out survey forms, restricting the number of surveys, and reducing the number of people who must be surveyed by using more sophisticated sampling and data collection methods.

• *Accomplishments.* Although most users saw room for improvement, many praised ESS accomplishments, such as the *Farmers' Newsletter* series. In Denver, a representative of WIFE (Women Involved in Farm Economics) said all producers should be reading it. *FARMLINE* magazine was also cited for getting important agency information to farmers.

As for surveys, several ESS data users welcomed the initiation of the new catfish and aquaculture program last year.

• *Scheduling.* Users noted the delay in the scheduling of the planting intentions reports this year and the apparent confusion over whether there would be one or two reports.

Ironically, the trouble started when officials reviewed recommendations of the user meetings a year ago. Many users had contended that two reports covering farmers' planting intentions in January and April were one too many.

Then, last fall, the agency faced a funding squeeze and proposed doing away with the January survey, thus saving money and easing the respondent burden. But when ESS requested public reaction, the plan wasn't well received by many southerners, who said they needed the January acreage indications because of their comparatively early planting schedules.

So, for this year at least, the January report was retained for 16 states. Farmers in the other states were surveyed around March 1 for the *Prospective Plantings* report issued on March 19. The whole system will be reviewed for a more satisfactory arrangement next year.

Tough To Trim

However, this example of how tough it is to trim a government service was pointed up further in this year's user meetings. Virtually every recommendation dealt with improving or adding or speeding up services.

For instance, users discussed their needs for more county data since most estimates are not applicable below the state level. They also requested easier access to computer tape data reflecting survey findings.

Nevertheless, there were a few who said they could do with less. One user suggested cutting back the agency's price forecasting activities. Another suggested combining the agricultural census and ESS series on farm numbers.

One guest summed up the users' and the agency's dilemma late in the final session at Denver. He admitted that all the arguments sounded plausible for adding new services and avoiding any cutbacks on current ones. However, he concluded that some unpopular decisions must be made to hold the line on government spending and combat inflation.

Where To Get Farm Facts

Agricultural facts and figures may be closer than you think through the 44 field offices of USDA's Economics and Statistics Service. Each office issues releases on acreages and yields, livestock breeding plans, production, prices, farm labor, weather, and other local and regional farm information. Contact your state statistician for a list of regular reports.

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Better Measures of Farm Finances

Farm analysts will probably be citing figures on "returns to operators" and "net cash flow" with increasing frequency over the next few years.

These terms, and the numbers to back them up, have been introduced with new USDA procedures to measure farm operator income and the economic status of U.S. farms.

One major purpose is to separate the finances of the farm household from those of the farm business. That, in turn, will pave the way for future breakdowns of farm production finances by farm size, type, location, and ownership arrangement.

"Many financial statistics in current use took their form decades ago when farm operators depended almost entirely on farming for their income," says Allen Smith, one of several economists involved in developing and explaining the new methods.

About 2 years ago, USDA began considering changes recommended by economists from both within and outside the government. The result is a broad set of proposals to update the system of reporting farm financial statistics over the next few years.

The proposals affect USDA's farm income accounts as well as its farm balance sheet accounts, which provide an annual statement of U.S. agriculture's worth by reporting farm assets, debts, and equity.

A Better Information System

The new accounts should provide better information to target farm policies, guide the decisions of farm lenders and other businesses serving farmers, and improve the analytical tools of farm advisors, according to Smith.

Net farm income estimates will still be published, but some of the new statistics are already being introduced along with the old. This dual reporting will continue for at least a few years before an official changeover is considered.

By that time, enough historical data will be converted to the revised system to compare the annual ups and downs in the farm economy against past years.

Farm Versus Family Finances

Separating out the finances of the farm household from those of the farm production unit is a vital first step in the conversion process. Present estimates aren't just a record of business earnings and assets.

For instance, the value of food and shelter that the farm provides is added into the unrevised financial accounts, and household expenses and debts are subtracted. That's because the accounts were designed to measure the overall financial well-being of farm families back when they were less dependent on outside production inputs and almost entirely dependent on farming as their source of income.

"The well-being of operator families and the returns to resources in farming are not necessarily the same anymore," Smith says.

People who live on smaller farms typically earn more income from other occupations than from farming. Similarly, the returns to resources in farming can look impressive, but they frequently don't add to the wealth of the farm household—particularly when the capital or the land is provided by someone else.

In the unrevised income accounts, the estimated rental value of the operator's farmhouse remains a major income item. However, the new system removes the household portion of income and expenses from the income accounts.

The result is a new measure: returns to operators. After subtracting expenses, net farm income for 1979 is estimated at $31 billion, but returns to operators are estimated at $26 billion (see accompanying income table). The figures are $5 billion apart, though both show the same 19-percent gain from comparable estimates for the previous year.

Comparing the Accounts: 1979 Farm Income and Expenses

	Revised format[1]	Original format
	million dollars	
Total farm income:	**140,418**	**149,577**
Farm marketings	132,399	131,459
Livestock and products	68,639	68,639
Crops	63,760	62,820
Net inventory change	2,874	4,068
Government payments	1,375	1,375
Value of home consumption	1,447	1,447
Rental value of farm dwellings	N.A.	9,104
Other farm income	2,323	2,124
Total farm expenses:	**114,696**	**118,618**
Feed	17,004	17,004
Livestock	12,684	12,684
Seed	3,400	3,400
Fertilizer and lime	6,692	6,692
Pesticides	3,057	3,057
Fuel and oil	6,281	6,281
Electricity	1,639	1,639
Repair and operation	6,938	7,384
Machine hire, custom work, and contract labor	4,078	3,165
Wages to hired labor	8,327	9,239
Marketing charges	1,767	1,767
Other expenses	4,382	4,937
Interest	12,281	12,836
Real estate	5,708	6,260
Nonreal estate	6,576	6,576
Business taxes	3,943	4,259
Capital consumption	16,181	18,954
Net rent to landlords	6,032	5,320
Returns to operators:	**25,722**	**N.A.**
Net farm income:	**N.A.**	**30,959**
Total operators' income:	**65,068**	**65,321**
Farm sources	30,706	30,959
Nonfarm sources	34,362	34,362

N.A.= not applicable.
[1]Excludes income and expenses associated with the operators' dwellings. Considers CCC transactions as loans rather than cash receipts.

Comparing the Accounts: Farm Balance Sheet of January 1, 1980

	Revised format[1]	Original format
	million dollars	
Total farm assets:	**820,972**	**918,861**
Real estate	613,653	671,243
Livestock and poultry	61,243	61,243
Machinery and motor vehicles	88,415	94,322
Automobiles	2,042	6,380
Trucks	6,689	8,258
Tractors	26,844	26,844
Other machinery	52,840	52,840
Crops	33,094	33,094
Financial assets	24,567	38,499
Time deposits	N.A.	8,580
Currency	1,888	1,888
Demand deposits	5,396	5,396
Investments in cooperatives	17,283	18,600
U.S. savings bonds	N.A.	4,035
Household equipment	N.A.	20,460
Total farm debt:	**146,440**	**157,323**
Real estate	74,983	82,123
Nonreal estate	71,457	75,200
Commodity Credit Corporation	4,500	4,500
Other reporting institutions	55,465	58,980
Nonreporting creditors	11,492	11,720
Proprietors' equity:	**674,532**	**761,538**

N.A. = not applicable.
[1]Excludes operators' dwellings and other assets and debts associated with family use.

Operators' income, a different calculation which includes the rental value of the operator's farmhouse and income from both farm and nonfarm sources, is estimated at around $65 billion for 1979 under both the new and old formats. This is a particularly important indicator of the economic situation of small farms heavily dependent on off-farm income.

Like the new income accounts, the revised balance sheet accounts omit the household share of wealth and debt in the operator's farmhouse, furnishings, farm vehicles (to the extent used for nonfarm purposes), and household savings.

In the balance sheet accounts, farm assets as of January 1, 1980, are nearly $100 billion lower under the revised system, while farm debts are only slightly lower (see accompanying farm balance sheet table). Proprietors' equity is nearly $90 billion lower. Again, farm dwellings account for the biggest part of the difference.

The Comparability Advantage

One key benefit of replacing the net farm income statistic with returns to operators is that the farm production unit can be viewed as part of the business sector of the national economy. That way its returns can be compared with other industries on a generally compatible basis, Smith says.

Likewise, the overall earnings and finances of farm operator families can be compared with other households in the U.S.

The new procedures yield still another important bonus: They include both a net cash income and a net cash flow estimate (not shown on the accompanying tables) to measure farmers' ability to meet current expenses. Net cash income includes only cash transactions for income and expenses. Cash flow includes Commodity Credit Corporation loans on the cash income side and cash purchases of capital items, such as machinery, on the cash expense side—figures which don't go into the income accounts.

In 1979, farmers had a net cash flow of $44 billion, up from $38 billion the previous year. When a long-term series of these statistics is available, year-to-year changes will indicate improvement or deterioration in farmers' cash flow situation.

More Than "New Math"

The revised system involves more than just a different way of adding up figures to better distinguish the finances of the farm business from farm family income, says Smith.

Farm survey questions are also being revised to give analysts the information they need to better interpret the actual economic situation of various subgroups of farmers—by type of farm, value of sales, and type of ownership, for example.

"Farms are so specialized now that you can't come up with an average and provide a true picture of the financial condition of farming. Grain farmers may be doing well, while hog producers are going broke. It's like trying to compare a utility company with an automobile manufacturer. You can't average out the two situations and apply it to either," Smith explains.

Under the new system, returns to operators as well as balance sheet accounts will eventually be broken down to show how farms differ each year between one type of commercial operation and another.

For example, the numbers could indicate how a drought variously affected the finances of a cash grain farmer and a livestock feeder. Plans are also underway to report income situations separately for sole proprietors, partnerships, and farm corporations.

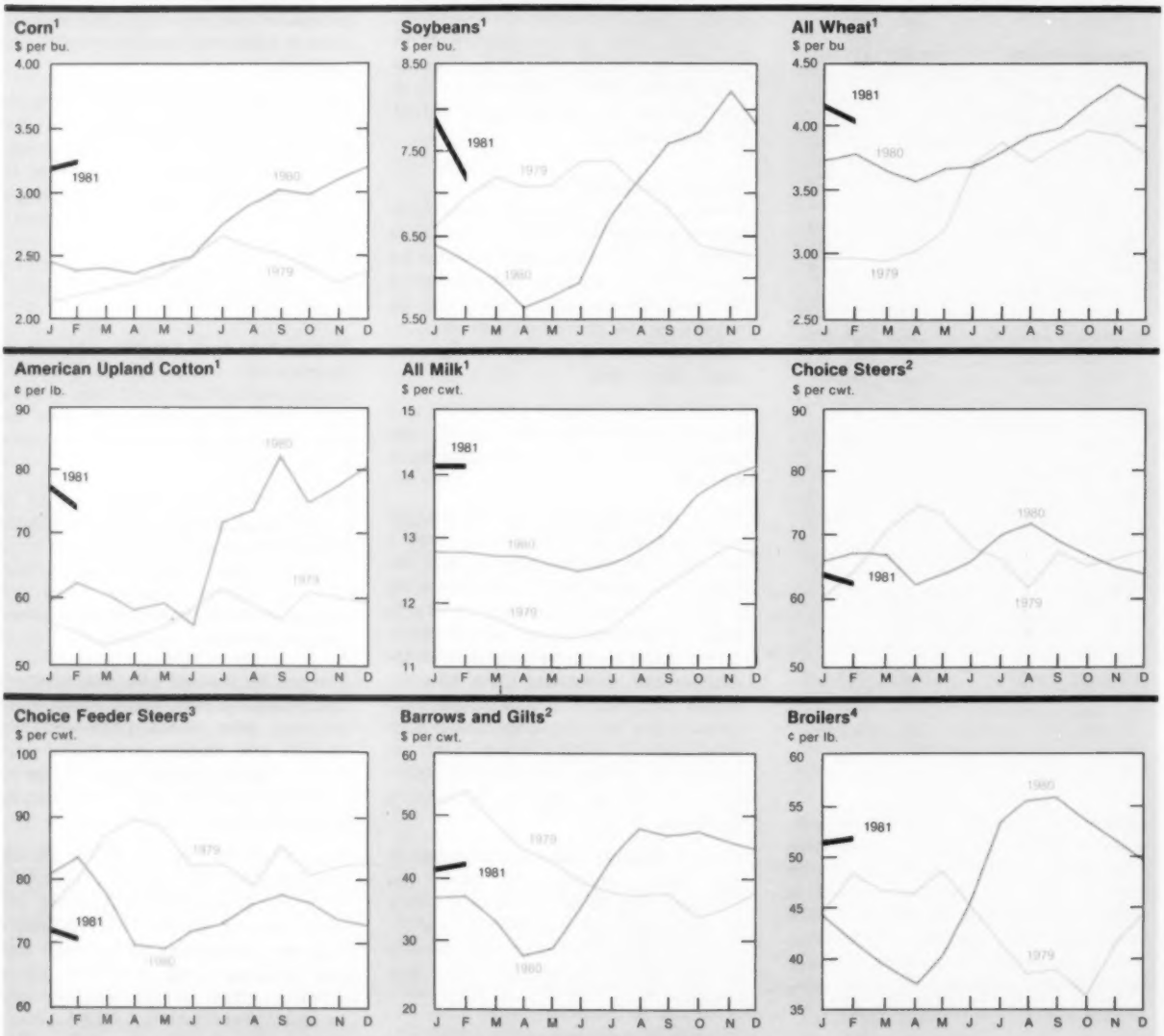
The results shouldn't be just numbers. The additional information could better pinpoint who needs help and who doesn't, and whether farm policies and current trends are creating a healthy environment for producers throughout the farm economy.

A detailed comparison of the revised and unrevised farm sector accounts for 1977-79, cash receipts by state, and other financial statistics are available in ***Economic Indicators of the Farm Sector: Income and Balance Sheet Statistics, 1979.*** *To request a copy, write to: ESS Publications, USDA, Room 0054-South, Washington, D.C. 20250. Ask for Statistical Bulletin 650. Supplies are limited.*

Farmline Trends

Monthly Price Monitor

Corn prices rose slightly in mid-February, remaining at the highest level in 5 years. Kansas City barrows and gilts and New York broilers also rose from January. However, soybeans prices fell by 67 cents—the sharpest drop since August 1977. Except for milk, which remained steady, all other February commodity prices also fell. Most were still above February 1980 prices, but Omaha Choice steers and Kansas City Choice feeder steers (down more than $2 per cwt.) dropped further below year-ago levels. Wheat, while falling 15 cents a bushel, remained above the $4-per-bushel mark.

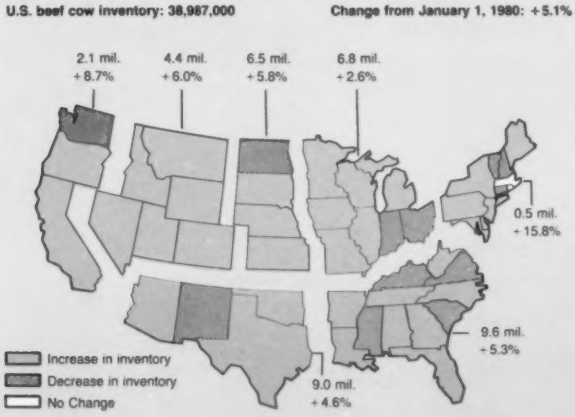


[1]U.S. average prices received by farmers. Prices for the latest month are mid-month averages. [2]Omaha. [3]600-700 lbs., Kansas City. [4]Wholesale, New York.

Beefing Up for Herd Expansion

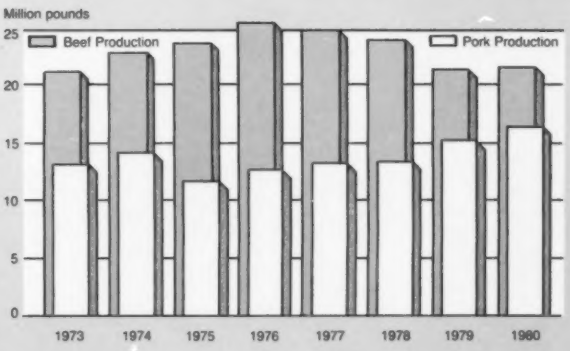
January 1 U.S. beef cow numbers provided the first solid evidence of herd expansion, rising 5% to 39 million head. The total cattle inventory reached 115 million, up 3% from a year ago though well below 1975's peak of 132 million. The rate of expansion may slow this year, but gradual rebuilding should continue until the next peak is reached, perhaps around 1987.

Herd Rebuilding Begins in Earnest



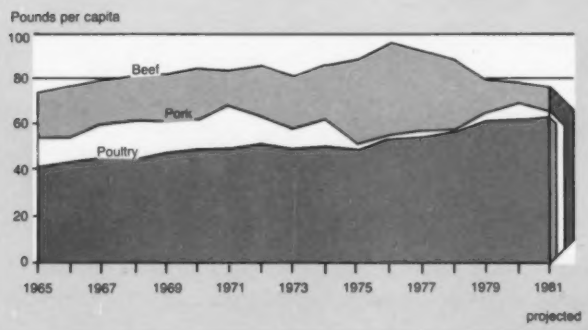
Beef production dropped sharply after 1976 (the peak selloff year of the current cycle), but showed a small gain last year. This year, output may about match 1980's 21.5 million lbs. Cattle price weakness in 1980 (see Choice Steers price chart on page 18) was partly due to larger pork production, but pork output should slump this year. Choice Omaha steers started 1981 in the low to mid-$60's, but may average around $10 higher per cwt. in the spring and second half.

Beef Production Already Shows Signs of a Turnaround



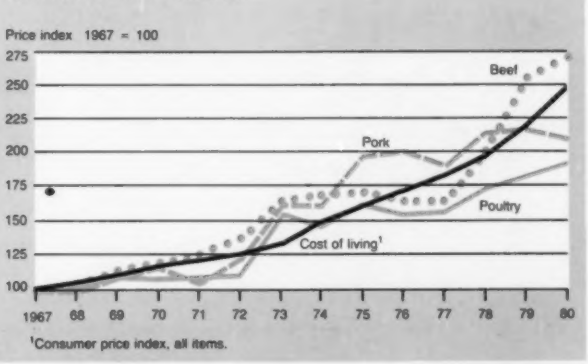
Beef consumption (retail weight basis) reached a record 96 lbs. per person in 1976 when herd liquidation began. Each year thereafter, consumption dropped as the herd declined. Population growth this year may cut another pound from 1980's 78 lbs., but consumption should start rising again in 1982 and continue upward for 4 or 5 years as cattle numbers increase. Poultry—pecking away at the lead held by beef and pork—should still trail both red meats this year.

When Beef Supplies Start Rising, Per Capita Consumption Will Pick Up Again



Retail beef prices have outpaced inflation in all but 3 years since 1967, also rising considerably more than pork and poultry. Price weakness in 1976-1977 paralleled the highs in beef production. For Choice beef, the average retail cut increased from 85 cents a pound in 1967 to $2.38 in 1980. Retail prices may rise 11%-15% this year. The producer gets around 60 cents of every dollar spent on Choice beef.

. . . And Retail Beef Price Rises May Not Earn So Much Attention



[1]Consumer price index, all items.

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Coming Up In Months Ahead

- **Rural Shift in Population**
- **Disappearing Farmland**
- **The Expanding European Community**
- **Solving the Cracked Egg Problem**